

THE TRILLION-DOLLAR QUESTION: CAN GREECE BE SAVED?

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I. INTRODUCTION

What was once called the cradle of Western civilization is now known as the cradle of crisis. Decades of economic mismanagement, reckless spending, and corruption have led Greece to its current financial disaster.¹ Rescue packages have been adopted to help stabilize the crumbling Greek economy.² Meanwhile, a country, a currency, and an entire continent have been brought to its knees. This paper discusses Greece's astonishing rise and fall from the Euro and the worldwide consequences of its financial

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1. See Takis S. Pappas, *The Causes of the Greek Crisis are in Greek Politics*, OPEN ECON. (Nov. 29, 2010), <http://www.opendemocracy.net/openecconomy/takis-s-pappas/causes-of-greek-crisis-are-in-greek-politics> (last visited Oct. 9, 2012).

2. Patricia Blazey & Robert Wetton, *The Greek Affair: A Cause or a Symptom of the European Union Instability?*, 7 MACQUARIE J. BUS. L. 147, 147 (2010).

crash. First, this paper will draw out the origins of Greek membership in the European Union (EU), along with the significance of such association for the country. Second, this paper will discuss how the Greek financial crisis escalated and how government incompetence aggravated the problem. Third, the global repercussions of a Greek exit from the Euro will be explored. Finally, the financial problems in Greece will be compared to those in the United States, reminding us of the world's interconnectedness.

II. BACKGROUND

From the very beginning, the Euro, as a single currency, has imposed high risks on some European governments like Greece.³ When European leaders got together in 1992, opting for unification of their monetary policies, they were hoping that European economies would act in similar ways.⁴ However, the plan did not transpire as they had hoped.⁵ Now, with Greece in crisis and the Euro feeling the blow, the implications of this risk have become clear.

A. A Brief Overview of the EU and Greek Membership

What started out as a "regional trade association" over fifty years ago has become a regional union composed of twenty-seven member-nations.⁶ Throughout the years, these member-nations have created free-trade areas, removed most of their inner borders, and vastly extended their outer ones to create new associations with other European countries.⁷ They also created a system to synchronize their individual policies in areas concerning the environment, human rights, social development, and more.⁸ Various forms of government were also developed to democratize the EU.⁹

In 2001, Greece became the twelfth country to join the European Monetary Union (EMU) with the hopes of gaining more stability and

3. John Miller & Katherine Sciacchitano, *Why the United States is Not Greece*, DOLLARS & SENSE, <http://www.dollarsandsense.org/archives/2012/0112millersciacchitano.html> (last visited Oct. 9, 2012).

4. Martin Feldstein, *The Failure of the Euro: The Little Currency That Couldn't*, 91 FOREIGN AFF. 105, 105 (2012).

5. Vivien A. Schmidt, *The European Union's Eurozone Crisis and What (Not) to Do About It*, 17 BROWN J. WORLD AFF. 199, 200 (2010).

6. *Id.*

7. *Id.*

8. *Id.*

9. *Id.*

greater opportunities.¹⁰ For a country with a traditionally weaker currency, joining the EMU meant a way to restructure Greece's weak economy and remove border-crossing formalities.¹¹ Membership would go a long way to unify and simplify the movement of people and goods between Greece and the rest of Europe. Investors, however, believed that the decision to admit Greece into the EMU would "send out the wrong signal" to financial markets because of their substantial budgetary and inflationary problems.¹² Investors worried that other, weaker economies would also be allowed to join the EMU without meeting the EU's economic criteria.¹³ At the time, Greece was not in any position to join the EU.¹⁴ In fact, there were clear indications that the Greeks were 'fudging the numbers' by making their financial situation look better than it really was.¹⁵ Deception and lies helped smuggle Greece into the EU.¹⁶ The acceptance of Greece into the EU was a case of decision-makers' tolerance for countries seeking EU membership.¹⁷ It was also a demonstration of decision-makers' negligent review of the accuracy of Greek financial data.

B. Significance of the Euro for European Unity

One of the main objectives behind the EMU and the Euro was to create a more harmonious Europe.¹⁸ Political leaders in Europe reasoned that citizens would feel a "greater sense of belonging to a European community" through their use of a common currency.¹⁹ They also reasoned that European integration would guarantee financial growth, allowing several EU countries to compete on an international level with other major economies.²⁰ Thus, in 1992, upon the signing of the Maastricht Treaty, the EMU was born, giving its member-nations the world's leading trading

10. *Greece Joins Eurozone*, BBC NEWS (Jan. 1, 2001) <http://news.bbc.co.uk/2/hi/business/1095783.stm> (last visited Oct. 6, 2012).

11. *See id.*

12. *Id.*

13. *Id.*

14. *Id.*

15. MATTHEW LYNN, *BUST: GREECE, THE EURO, AND THE SOVEREIGN DEBT CRISIS* 117 (2011).

16. *Id.*

17. *Greece Joins Eurozone*, *supra* note 10.

18. Feldstein, *supra* note 4, at 105.

19. *Id.*

20. *Europe in 12 Lessons*, EUROPA, http://europa.eu/abc/12lessons/lesson_1/index_en.htm (last visited July 19, 2012).

power, a unified currency, and a cohesive market economy for goods and services.²¹ The formation of a united European market provided people and businesses with an essential platform in order to help EU countries successfully participate in world markets.²² It also provided people with the ability to travel freely throughout Eurozone borders.²³ More importantly, there is a profound psychological effect that emerges simply by sharing a common currency.²⁴ As one can imagine, European citizens should feel more connected by carrying common bills and coins in their wallets each day.²⁵

III. THE GREEK DEBT CRISIS

Throughout the last decade, Greece went on a debt binge that came crashing to a halt in late 2009.²⁶ The country's debts were impossible to finance, resulting in the Greek call for outside help.²⁷ This financial crisis has destroyed the country's economy, brought down a government, and unleashed violent protests, triggering a significant shock to the global economy and the future of the Euro.²⁸

A. *The Causes of Greek Financial Woes*

To most observers, the current Greek crisis is largely based on its struggling economy.²⁹ Greece has violated the terms of its membership agreement in the EMU by disguising the size of the country's current deficit, which is projected to be around 300 billion Euros.³⁰ With numerous reports exposing the deficits and public debt accumulated by successive Greek governments and the conditions of the bailout package offered by the EU, "it is no secret that Greece has been in financial trouble for many

21. Feldstein, *supra* note 4, at 106.

22. *Europe in 12 Lessons*, *supra* note 20.

23. *See id.*

24. Matthew C. Turk, *Implications of European Disintegration for International Law*, 17 COLUM. J. EUR. L. 395, 404 (2011).

25. *Id.*

26. *The European Debt Crisis*, NYTIMES.COM, http://topics.nytimes.com/top/reference/timestopics/subjects/e/european_sovereign_debt_crisis/index.html (last updated Oct. 9, 2012).

27. LYNN, *supra* note 15, at 2.

28. *The European Debt Crisis*, *supra* note 26.

29. Blazey & Wetton, *supra* note 2, at 147.

30. *Id.* at 148.

years.”³¹ The Greek economy is faced with an enormous problem. Not only is the country a major threat to the economic stability of other Eurozone countries, but also to the entire world.³² Years of unrestrained public spending, tax evasion, and early retirement for citizens with generous pension plans, combined with the failure to implement financial reforms, have left the Greek economy in worse shape than the country’s ancient ruins.³³ The reasons for Greek financial troubles may be diverse. However, disastrous economic management coupled with decades of corruption in Greek politics has put Greece in crisis mode.³⁴

1. A Country Living Beyond Its Means

The situation of Greece in the EU is simple. Throughout the years, Greece has received enormous injections of aid from European funds and European institutions that resulted in the nation’s growth, resulting in a country living beyond its means.³⁵ Tens of billions of Euros were given by the EU to help “modernize and develop” Greece’s subway system, as well as to construct a new Athens International Airport to accommodate the crowds that would flock to the Olympic Games of 2004.³⁶

It was logical that Greece would want to host the Olympics at some point. After all, this was the country that gave birth to the Olympics and it was considered part of its legacy. However, there had always been uncertainty as to whether Greece could really afford to host the world’s most extravagant sporting event. The skepticism, as it turned out, was correct. The Greek government initially estimated a total cost of \$5.9 billion to host the Olympic Games.³⁷ But once the work was finished and the stadiums built, the real cost grew close to \$15 billion.³⁸ Hosting the Olympics was a prime example of Greece living beyond its means. For years, however, the entire Greek economy had been living off of State aid that was readily available.³⁹ Eventually Greece was fiscally derailed and accumulated a tremendous debt. Since then, fellow Eurozone countries have continued to grant monetary aid to keep Greece afloat, but at a high

31. *Id.*

32. *Id.* at 147.

33. *Id.* at 148.

34. *See* Blazey & Wetton, *supra* note 2, at 148.

35. *Id.* at 150.

36. *Id.*

37. LYNN, *supra* note 15, at 117.

38. *Id.*

39. *See* Blazey & Wetton, *supra* note 2, at 150.

cost—that of harsh austerity measures ordered by France and Germany in exchange for two massive bailout packages that attempted to stabilize the Greek economy.⁴⁰

Together, the EU, the International Monetary Fund (IMF) and the European Central Bank (ECB), are the so-called *troika*, which devised the first bailout package in May, 2010.⁴¹ The bailout package involved a loan of \$152.6 billion with the hopes of stabilizing the country's battered banking sector.⁴² In return, Greece was required to decrease public spending.⁴³ After the deal was announced, Greek Prime Minister George Papandreou warned his nation that Greece had a very big trial ahead and would have to accept such tough conditions in order to avoid bankruptcy. In a public broadcast, Papandreou stressed that ordinary Greeks would have to accept "great sacrifices" in order to avoid imminent "catastrophe."⁴⁴

The Greek community met the austerity measures with great opposition, leading to violent riots, protests, and social unrest throughout the country.⁴⁵ The Greek community disfavored the austerity measures because they required deep salary cuts and tax increases, prompting a significant decline in the standard of living for the average citizen.⁴⁶ Further, taxes were added on cigarettes, gas, alcohol, and the retirement age was raised from sixty years to sixty-five years with a reformed pension scheme.⁴⁷

The first bailout package was granted with the impression that Greece would "push through \$30 billion Euros of spending cuts."⁴⁸ However, the situation did not improve. It was originally anticipated that Greece's first adjustment plan, together with the \$152.6 billion bailout package, would reconstruct Greek access to private capital markets by the end of 2012.⁴⁹ However, this process would take much longer; the first bailout was not enough to avert Greece's deepening crisis.⁵⁰ As a result, a second, more drastic bailout package for Greece was formally adopted in March, 2012,

40. *Id.* at 3.

41. *Id.* at 150.

42. Angelos Tzortzinis, *Greece*, NYTIMES.COM, <http://topics.nytimes.com/top/news/international/countriesandterritories/greece/index.html> (last updated Oct. 9, 2012).

43. *The European Debt Crisis*, *supra* note 26.

44. LYNN, *supra* note 15, at 4.

45. *Id.* at 5.

46. Blazey & Wetton, *supra* note 2, at 150; *see also* Tzortzinis, *supra* note 42.

47. Blazey & Wetton, *supra* note 2, at 150.

48. LYNN, *supra* note 15, at 4.

49. Tzortzinis, *supra* note 42, at 7.

50. LYNN, *supra* note 15, at 4.

involving a loan of \$172 billion.⁵¹ Under this second deal, private holders of Greek debt were required to undertake a fifty percent write-down in the value of their government bonds.⁵² Furthermore, Eurozone experts would subject Greece's economic management to permanent supervision on the ground in Athens to ensure that fiscal goals were met.⁵³ For the Greeks, the idea of being supervised by *troika* was a degrading and unmatched intrusion into their country's sovereignty.⁵⁴ For a country that had suffered terribly under the Nazi-occupying regime during World War II, the last thing they needed was a German Chancellor imposing painful bailout conditions on their country.⁵⁵

It is often argued that after living so far beyond their means, the Greeks are finally getting what they deserve.⁵⁶ Accusations of Greeks' living beyond their means have prompted the mistaken perception that Greece is a country full of lazy playboys and party animals. The myth is not dispelled by Greece's bad habit of unrestrained spending, corruption, and tax evasion. This predilection for economic excess has contributed to the failings of the Greek economy.⁵⁷ For instance, the case of doctors in Greece represented corruption and tax evasion.

Evidence shows that there were numerous situations where doctors never cut any receipts or documented patient medical visits.⁵⁸ Many of these doctors were proclaiming a yearly salary as low as 3000 Euros on their tax receipts.⁵⁹ How could a doctor maintain practice rooms, pay for medical supplies, and earn a proper living on such a low income? The answer, of course, was that doctors were not declaring their true income. They were simply practicing deception to avoid paying their taxes—a usual, common aspect of Greek life.

However, most of these narratives only tell one side of the story. To dispel the popular stereotype that Greeks are lazy, new research shows that Greeks work longer hours than residents of any other European nation,

51. Tzortzinis, *supra* note 42.

52. Feldstein, *supra* note 4, at 109.

53. *The European Debt Crisis*, *supra* note 26.

54. LYNN, *supra* note 15, at 5.

55. *Id.*

56. David Ignatius, *Greece's Downward Economic Spiral*, THE STAR (June 27, 2012), <http://www.thestar.com/opinion/editorialopinion/article/1218313--greece-s-downward-economic-spiral> (last visited Oct. 9, 2012).

57. Paul Krugman, *Greece as Victim*, NYTIMES.COM (June 17, 2012), <http://www.nytimes.com/2012/06/18/opinion/krugman-greece-as-victim.html> (last visited Oct. 9, 2012).

58. LYNN, *supra* note 15, at 121.

59. *Id.*

including the Germans.⁶⁰ According to the data published, Greeks work an average of 42.2 hours per week compared to just 35.6 hours per week by Germans.⁶¹ Also, the notion that Greek social welfare programs are responsible for unrestrained government spending is inaccurate. Greece's social expenditures as a percentage of GDP take up a significantly lower amount of government budget than countries such as Germany or Sweden, who have impressively persisted through the European crisis.⁶²

Aside from its successful shipping industry, presumed to be the largest in the world, Greece's major industries are demonstrative of an economy with a weak industrial base.⁶³ The excessive amount of imports compared to exports, has always been a cause of concern for Greece's economy. In fact, data from the Bank of Greece has valued the amount of imports as 2.6 times greater than the amount of exports.⁶⁴ Specifically, manufactured products that are exported by Greece comprise only ten percent of the country's GDP; this is compared with an average of thirty percent for other member-nations in the Eurozone.⁶⁵ Furthermore, Greece's membership in the EU accelerated the movement away from production of agricultural goods.⁶⁶ Currently, "Greece imports almost [forty] percent of its food, most of its medicine and almost all of its oil and natural gas."⁶⁷ Industries have been eroding and wealth-generating businesses have faded, leaving the people of Athens to endure some of the highest prices in Europe, along with lower average wages than those enjoyed by other EU nations.⁶⁸ Based on the above, the root of the Greek debt crisis runs deeper than simply a country living beyond its means.

60. Michelle Caruso-Cabrera, *Greeks Work Hard, So Why Is There a Debt Crisis*, CNBC.COM (Oct. 18, 2011, 11:42 AM), http://www.cnbc.com/id/44944435/Greeks_Work_Hard_So_Why_Is_There_a_Debt_Crisis (last visited Oct. 9, 2012).

61. *Who Works The Longest Hours in Europe?*, GUARDIAN UK, <http://www.guardian.co.uk/news/datablog/2011/dec/08/europe-working-hours> (last visited Oct. 7, 2012).

62. Krugman, *supra* note 57.

63. Tzortzinis, *supra* note 42.

64. Protesilaos Stavrou, *Exit of Greece from the Euro is Collective Suicide*, PROTESILAOS BLOG (Jan. 8, 2012), <http://www.protesilaos.com/2012/01/analysis-exit-of-greece-from-euro-is.html> (last visited Oct. 9, 2012).

65. Tzortzinis, *supra* note 42.

66. *Id.*

67. *Id.*

68. *Id.*

2. Dysfunctional Politics

Most would agree that the causes of the Greek crisis lie heavily in Greek politics. This is no surprise considering prominent political figures have been charged with corruption, bribery, and fraud. Most of this corruption involves the administration of State funds.⁶⁹ Knowledge of these scandals led to endless accusations that the Greek government and its political parties were responsible for today's current economic crisis. According to Professor of Comparative Politics Takis Pappas, "[i]f the crisis were simply due to economic mismanagement, then an economic prescription, no matter how bitter the pill, should be enough for putting the house in order."⁷⁰ In his article, he suggests that, "recovery will require much more than wise economic management."⁷¹ Instead, it will entail the "remaking of Greece's entire political . . . system."⁷²

The Greek crisis has its origins in a dysfunctional political system, which has failed to react for over thirty years.⁷³ The political system also failed to react during the past June 2012 elections, where the system was unsuccessful at forming a coalition government. How did Greece—once called the 'cradle of Western civilization'—come to this? The causes lie in three largely overlooked factors about Greek political life. The first is Venizelos' Law.

Greek Parliament implements Venizelos' Law, which absolves members of the Parliament for mismanagement or irresponsibility after new elections are conducted.⁷⁴ This naturally results in elections that happen frequently, especially after major scandals are revealed. The perpetrators, however, are never prosecuted. As parliamentarians, if they have been recently reelected, anything illegal they did during their previous term in Parliament has been cleared.⁷⁵ Thus, fraudulent politicians can escape their crimes simply by conducting a new election.

The second major weakness is that political parties' private interests largely control the Greek press.⁷⁶ Thus, press is essentially a government

69. See Pappas, *supra* note 1.

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.*

74. See generally Liability of Ministers Draft Law (Law 3126/2003) (Greece).

75. *Id.*

76. Pavlos Eleftheriadis, *Only a New Political Order Can Rescue Greece*, FT.COM (May 27, 2012), <http://www.ft.com/intl/cms/s/0/a02f585a-a5bd-11e1-b77a-00144feabdc0.html> (last visited Oct. 9, 2012).

monopoly “with no respect for rules of objectivity or moderation.”⁷⁷ The heated speechmaking of politicians is repeatedly shown and exaggerated by television reporters.⁷⁸ Thus, there is no objectivity in the press.

Finally, the judiciary system is very slow, constantly bogged down, and often corrupt. This is no surprise considering the government appoints the principal figures of the judiciary on prejudicial grounds.⁷⁹ An independent and unbiased judicial system does not exist, as it does in other major Western Nations and in the United States. The consequence is a defective governmental system.⁸⁰

a. Greece's Government: Divided They Stand

Greece's government has been held responsible for all the major problems the country struggles with today. The political system established during modern times has been governed by the rivalry of two main political parties, the Panhellenic Socialist Movement (PASOK) and New Democracy (ND), representing the left wing and right wings respectively.⁸¹ PASOK is a socialist movement that encouraged irrational spending to create a welfare state without providing a steady tax collection base to be able to fund their policies.⁸² Citizens became frustrated with the government's endless list of ill-fated reforms.⁸³ Their frustration grew to resentment once economic scandals involving some leading PASOK members were exposed. As a result, the ND government promised to rearrange the State and inject a “new morality” into the political system of the country.⁸⁴ However, once in office, the measures taken by the ND were a flop.⁸⁵ No major changes were introduced; the public sector continued to expand, and public spending increased, contributing to an extraordinary deficit.⁸⁶

It is obvious that these two main political parties lost track of their ideological origins a long time ago. Flip-flopping in and out of government since 1975, the parties focused only on how they could shower their

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.*

81. Christos Lyrantzis, *Greek Politics in the Era of Economic Crisis: Reassessing Causing and Effects*, 45 HELLENIC OBSERVATORY PUB. 1, 3 (2011).

82. See Pappas, *supra* note 1.

83. Lyrantzis, *supra* note 81, at 9.

84. *Id.*

85. *Id.*

86. *Id.*

respective constituents with benefits such as jobs, higher and earlier pensions, free education, and hospitals. This was done without any consideration for the needs and ability of the country to pay.⁸⁷ In the end, the two parties followed a trail of irresponsible populism with free-spending ways, patronage politics, and ethnocentrism, leading the country to further diverge from the rest of Europe.⁸⁸ During the last thirty-five years, tax collection has been suffering, corruption has been tolerated, and many of the taxes have been ignored or forgotten and returned to collectors and politicians as kickbacks.⁸⁹ In fact, tax evasion has been so regular that Greek citizens often considered tax evasion a normal practice. Many Greeks have admitted to bribing tax inspectors, who would then turn a blind eye to fabricated tax returns.⁹⁰ In fact, the average Greek household was paying close to 1500 Euros in tax bribes per year.⁹¹ None of this money was actually being paid to the government; therefore, none of the money was used to pay off Greece's massive debt. The judicial system has been likewise unresponsive, and in many cases corrupt. The judicial system often delays or defers decisions on taxes that were to be paid by the powerful few, and subsequently were never paid or collected.

The current Greek crisis is the product of political ignorance more than anything else. Over the past three decades, both parties refrained from any policy innovation, did not undertake to fix public finances, concealed the true state of the Greek economy from the public, and misrepresented Greece's financial situation to the EU.⁹² The parties used their control of the public sector to stay in power for as long as they could. They also caved in to the demands of workers' unions that lobbied for raising workers' salaries and benefits. Further, the workers' unions pushed for retirement at an increasingly early age.⁹³ The unions did this by obtaining additional loans from their creditors until it exploded in the form of the fiscal crisis that recently hit Greece.

The country needs a political leader who will reveal the truth about the crisis so that Greeks can realize the essence of the problem and apply the actions necessary to solve it. It is impossible to have good therapy without a good diagnosis. Thus, in order to restore the battered state of the country, Greek politicians must realize that exchanging favors for votes only makes

87. *See generally id.*

88. Pappas, *supra* note 1.

89. *See generally id.*

90. LYNN, *supra* note 15, at 121.

91. *Id.*

92. *Id.* at 118.

93. *Id.* at 122.

the country more ineffective. Political leaders need to stop bickering about who is doing more to save the country, and put their words into action. Of course, the financial condition of the world economy does play a role in making things worse for Greece.

B. A 'Grexit' From the EU

What once seemed unthinkable is now a real possibility. All over the world, media headlines, political leaders, and economists are predicting a Greek exit from the Euro in the near future. The prospect of Greece leaving the Eurozone is increasingly conceivable, not just because of its own political dysfunction and unsustainable debt, but also because the option to leave the EMU is very enticing.

1. The Lisbon Treaty and the Exit Clause

Initially, the treaty that created the EU did not include a specific legal provision that allowed a dissatisfied member-nation to leave the EU community.⁹⁴ This resulted in a country that could secure membership based on requirements for entry, yet be sentenced to confinement for life.⁹⁵ In other words, once a country was in, it was in for good. The Lisbon Treaty and its so-called "exit clause" was created to fill this gap by prescribing a procedure for a member-nation to withdraw from the EU if it so desired. According to the treaty, a member-nation wishing to leave the EU must officially inform all its Union partners of its decision and should then try to negotiate the terms of its withdrawal in the most civilized manner possible.⁹⁶ If, however, the country cannot negotiate its exit gracefully, it will be considered to have left the EU two years after it first notified its Union partners of its decision to leave the club.⁹⁷

Although the Lisbon Treaty prescribes a procedure for withdrawal, it "does not set out any specific grounds to invoke the exit clause."⁹⁸ What is certain, however, is that no other member-nation can force the expulsion of Greece from the Eurozone.⁹⁹ The only thing that comes close to resembling

94. Sideek Mohamed Seyad, *The Lisbon Treaty and the EMU*, 4 SWEDISH INST. FOR EUR. POL'Y ANALYSIS 1, 5 (2008).

95. *Id.*

96. Blazey & Wetton, *supra* note 2, at 156.

97. *Id.* at 157.

98. Seyad, *supra* note 94, at 5.

99. Carlos X. Alexandre, *Only Greece Can Ask to Exit the Euro*, SEEKING ALPHA (Feb. 13, 2012), <http://seekingalpha.com/article/363091-only-greece-can-ask-to-exit-the-euro.html> (last visited Oct. 9, 2012).

a ‘right of expulsion’ in EU law is Article 7(2) and (3) of the EU Treaty, which permits a member-nation’s rights to be suspended for a brief period of time if a “serious and persistent breach” of the provisions stated in the EU treaty have occurred.¹⁰⁰ This may be viewed as an initial step in ejecting a member-nation, but it is certainly not the same as absolute expulsion.¹⁰¹ Thus, Greece cannot be kicked out unless the EU treaty is reformed, and since Greece holds a veto on any such changes, this is not an option.¹⁰² However, if Greeks themselves voluntarily choose to leave the EU by negotiating a withdrawal with their EU partners, it would be a totally different story. While talks of returning to the drachma could be heard all across the country following the May, 2012 elections, an estimated eighty percent of Greeks wished to remain with the Euro.¹⁰³ Besides, even if Greece did decide to withdraw and repudiate on its bailout terms, complete departure from the Euro would probably take a while.¹⁰⁴ A surprise announcement of Greek departure would have to be made in order to prevent Greek depositors from removing their Euros from banks and holding them in cash.¹⁰⁵ While finance ministers in Greece are considering the possibility, orchestrating a ‘Grexit’¹⁰⁶ would be legally complicated and quite lengthy.

2. Consequences of a Greek Departure

A Greek departure from the EU could trigger a deep and long recession in Greece, the Eurozone, and throughout the world. Although Eurozone membership has benefitted Greece economically, this membership has paid a very steep price in terms of unemployment, economic turmoil, and civil unrest.¹⁰⁷

Greece has been a “traditional exporter” of products such as olive oil, honey, cheese, minerals, agricultural goods, and textiles.¹⁰⁸ On the other hand, Greece has increased importing since its adoption of the Euro shifted

100. *Id.*

101. *Id.*

102. *Id.*

103. Tzortzinis, *supra* note 42.

104. *Id.*

105. Feldstein, *supra* note 4, at 115.

106. See Feldstein, *supra* note 4.

107. *Id.* at 114.

108. *Greece Trade, Exports and Imports*, ECON. WATCH (Mar. 29, 2010), http://www.economywatch.com/world_economy/greece/export-import.html (last visited Oct. 9, 2012).

Greek production away from agriculture and manufactured goods.¹⁰⁹ Principal imported products include machinery for its factories, transport equipment, fuels, chemicals, and medicine.¹¹⁰ The problem is that the value of all the goods Greece imports cost a lot more than the value of the goods exported.¹¹¹ This is called “a negative trade balance.”¹¹² Greece has managed to fill the gap with massive credits from the EU, payments from foreign residents, tourism, and its successful shipping industry.¹¹³ In fact, millions of tourists that visit Greece each year (thanks to the majestic beaches) help the nation gather foreign capital that largely “contribute[s] to the GDP on an increasing trend.”¹¹⁴ As long as Greece remains in the Eurozone and receives loans from the other European countries, Greece can use some of this money to pay for the extra products it imports; as such, there will be no shortage of the imported products in the Greek market.¹¹⁵ However, if Greece were to drop out of the Eurozone, this financial transfer would stop. Without the help of transfers from other Eurozone countries, Greece will have trouble meeting its debt obligations and managing its negative trade balance.¹¹⁶

The only possible solution for Greece will be to repudiate its debt and leave the EU. Greece will have to stop using the Euro and print its own currency, the drachma, to use for payments. However, the drachmas printed by Greece “will immediately be worth drastically less than the euro.”¹¹⁷ Economists believe “the drachma would be devalued by an estimated 50/70 percent compared to the euro.”¹¹⁸ All Greek businesses with foreign debts designated in Euros would be unable to pay them off, which would eventually lead to insolvency.¹¹⁹ This would steer Greece into an even worse recession.¹²⁰ At the same time, since the Euros earned from its exports will not be enough to pay for continuing imports, there will be

109. Tzortzinis, *supra* note 42.

110. *Greece Trade, Exports and Imports*, *supra* note 108.

111. *Id.*

112. *Id.*

113. *Id.*

114. *Id.*

115. *See Greece Trade, Exports and Imports*, *supra* note 108.

116. *See id.*

117. Constantine Von Hoffman, *What Will Happen if Greece Leaves the Euro?*, CBSNEWS.COM (May 15, 2012, 9:16 AM), http://www.cbsnews.com/8301-505123_162-57434206/what-will-happen-if-greece-leaves-the-euro/ (last visited Oct. 9, 2012).

118. Tzortzinis, *supra* note 42.

119. Von Hoffman, *supra* note 117.

120. *Id.*

shortages of imported goods for the country.¹²¹ This is due to the fact that devalued currency makes imported commodities more costly and would lead Greeks with no other option but to buy local products.¹²² This means that there could be blackouts because of a lack of adequate hard currency to buy energy, a shortage of medications for hospitals, a scarcity of spare parts for cars, and the list goes on.¹²³ This, in a nutshell, is the problem of not having adequate exchange funds for imports and needing to continue to borrow in order to finance its current trade imbalance.

On the other hand, a Greek departure from the Euro may not be so bad in the long haul. In fact, many economists, including the IMF, which has played an active role in lending Greece billions of dollars, believe a Greek exit from the EU “is in the nation’s best interest.”¹²⁴ Leaving the EU now and going back to the drachma would hurt a lot less financially than the current bailout course.¹²⁵ Indeed, for a couple of years, Greece would go through turbulent times where its economy would plunge faster and deeper than its current state.¹²⁶ But when this is all over, a new dawn would break, and the economy would grow even faster than it would without devaluation.¹²⁷ Not only will Greeks be forced to buy more local products due to costly imports, but also foreign buyers will find the country’s cheaper exports to be more appealing.¹²⁸ The mounting cost of imported goods would cause a reduction in the job wages in Greece, which would then lead shoppers to decrease their spending habits, ultimately making Greek products and services more available for exportation.¹²⁹ This would enhance Greece’s GDP growth and economy in general, and increase their competitiveness in the market.¹³⁰ If Greece leaves the Euro, the weak value of the drachma would attract vacationers all over the world because it would make Greece a cheaper travel destination than other vacation spots.¹³¹ Overall, the Greek economy would be healthier and its exchange

121. *See id.*

122. *Id.*

123. *See id.*

124. Von Hoffman, *supra* note 117.

125. Feldstein, *supra* note 4, at 114.

126. Von Hoffman, *supra* note 117.

127. *Id.*

128. *Id.*

129. Feldstein, *supra* note 4, at 113.

130. *Id.* at 115.

131. *See* Von Hoffman, *supra* note 117.

rate would “adjust over time” to avoid the current trade deficit from taking over.¹³²

Although leaving the Euro seems like a great solution for Greece to reduce its unsupportable debt, it is a lot more difficult and messy than one might think. It is naïve to believe that a Greek exit from the EU can be achieved and that business will go on as usual afterwards. If Greece leaves the EU, it could facilitate a very dangerous chain of events, instigating other countries such as Italy, Spain, Portugal, and Ireland to pull out of the EU as well.¹³³ Because of the risky precedent a ‘Grexit’ may set, Germany is willing to pay in order to prevent Greece from leaving the Eurozone.¹³⁴ It fears that a Greek departure could lead to the destruction of the Eurozone and the entire EMU.¹³⁵ If Greece were forced to leave the EU, financial investors around the world will be asking themselves, “Who is next?” If one country can so easily leave the EU, especially when the EMU was intended to be irreversible, capital markets will assume that other EU countries can do so as well.¹³⁶ This kind of uncertainty will drive the financial markets crazy, causing the EMU to eventually collapse.¹³⁷

IV. CRUMBLING ECONOMY: WHO HAS IT WORSE, UNITED STATES OR GREECE?

Many economists contend that the United States has the same problems as Greece and that the financial situation of Greece is just the beginning of a much larger problem the United States will soon face.¹³⁸

A. Similarities and Differences

Although the United States economy is not in the same dire straits as the Greek economy, there are some similarities between the United States and Greek fiscal woes. In Greece, unemployment and underemployment is widespread with 25.4 percent of the population actively looking for jobs, as

132. Feldstein, *supra* note 4, at 113.

133. Blazey & Wetton, *supra* note 2, at 147.

134. Feldstein, *supra* note 4, at 115.

135. *Id.*

136. *Id.*

137. *Id.*

138. Peter Morici, *The United States is Becoming Too Much Like Greece*, THE EPOCH TIMES (June 28, 2012), <http://www.theepochtimes.com/n2/opinion/the-united-states-is-becoming-too-much-like-greece-258271.html> (last visited Oct. 9, 2012).

reported in August, 2012.¹³⁹ Greece's economy is still getting worse.¹⁴⁰ According to the latest data published, unemployment in Greece is almost twice the average jobless rate in the seventeen countries that are part of the EU.¹⁴¹ Similar to Greece, the United States has had issues with unemployment with a rate above eight percent.¹⁴² Far too many students are graduating from college and finding themselves "waiting on tables or at counters at Starbucks" because they are unable to find work despite hopes that a degree would pay off.¹⁴³ To solve the unemployment issue in Greece, the government allowed workers to retire at an increasingly young age and spent too much on generous pension plans.¹⁴⁴ Before changes were made to the pension system in 2010, some pensioners were making much more than when they were actually employed.¹⁴⁵ If the country had not reformed their pension spending and continued to allow generous benefits for retirees, there would be nothing left for those who were actually working.¹⁴⁶ Given its aging population, Greek pension spending would amount to twenty-four percent of its GDP by 2060, and this figure alone would be enough to bankrupt the entire Greek economy.¹⁴⁷

Additionally, the Greek government has spent abundantly on educational systems, health care benefits, and other services to generate more employment opportunities for the people.¹⁴⁸ The plan to create more jobs obviously failed and put Greece in a position of having to pay more than it could possibly set aside. Similarly, in the United States, governments at the state and local level are generously spending on social security and employee retirement plans.¹⁴⁹ According to financial analysts, "78 million baby boomers [will] begin drawing on Social Security and Medicare programs to support them in retirement."¹⁵⁰ Unless the

139. *Greece Unemployment Rate*, TRADE ECON., [HTTP://WWW.TRADINGECONOMICS.COM/GREECE/UNEMPLOYMENT-RATE](http://www.tradingeconomics.com/greece/unemployment-rate) (last visited Nov. 19, 2012).

140. *See id.*

141. *Id.*

142. Morici, *supra* note 138.

143. *Id.*

144. LYNN, *supra* note 15, at 122.

145. *Id.*

146. *Id.* at 123.

147. *Id.*

148. Morici, *supra* note 138.

149. *Id.*

150. Landon Thomas, Jr., *Patchwork Pension Plan Adds to Greek Debt Woes*, NYTIMES.COM (Mar. 11, 2010), <http://www.nytimes.com/2010/03/12/business/global/12pension.html> (last visited Oct. 9, 2012).

government raises taxes, reduces the benefits, or increases retirement age, the programs will not be able to keep up with their promised pension payments in the coming years.¹⁵¹ The United States yearly federal deficit has escalated from \$161 billion in 2007 to about \$1.3 trillion in 2011,¹⁵² while the Greek yearly government deficit was \$26 billion in 2011.¹⁵³ For both countries, this is an annual budget deficit of about one-tenth of their national output.¹⁵⁴ As in Greece, where high interest rates on government debt will drive the country into bankruptcy, the United States federal and state debt will continue to rise and creditworthiness will continue to fall if the debt is not curtailed.¹⁵⁵

While large government debts have led to economic distress in both the United States and Greece, the relationship between the two countries is much more complex. Generally, high interest rates on a country's debt will cause a major reduction in the value of their currency.¹⁵⁶ Since Greece is a member of the EMU, it does not control the value of its own currency.¹⁵⁷ Instead, Germany and France—the two biggest economies of the seventeen countries that are member-nations of the EU—largely control the value of the Euro.¹⁵⁸ By contrast, the United States has its own currency and is guided by its own monetary policies.¹⁵⁹ Therefore, the United States can print more money and increase or decrease the value of their currency to balance their trade deficit, if they so desire.¹⁶⁰

Being firmly associated with a unified and established political regime has offered more protection to the United States than Greece, which is “loosely connected to the rest of Europe.”¹⁶¹ When financial conditions get difficult in the United States, the federal government is very receptive to those in need, providing support through various programs such as unemployment compensation, housing assistance, the Earned-Income Tax

151. *Id.*

152. Morici, *supra* note 138.

153. *Economy of Greece*, WIKIPEDIA.COM, available at http://en.wikipedia.org/wiki/Economy_of_Greece (last visited Oct. 9, 2012).

154. Miller & Sciacchitano, *supra* note 3.

155. See Stephen J. Rose & William T. Dickens, *The United States Is Not Greece*, FORBES (May 30, 2012, 5:36 PM), <http://www.forbes.com/sites/realspin/2012/05/30/the-united-states-is-not-greece/> (last visited Oct. 9, 2012).

156. *Id.*

157. *Id.*

158. *Id.*

159. *Id.*

160. Miller & Sciacchitano, *supra* note 3.

161. Rose & Dickens, *supra* note 155.

Credit, Medicaid, and more.¹⁶² In Greece, financial assistance is more sparse and given reluctantly.¹⁶³ The current economic crisis has prompted many Greek residents to flee the country in the hopes of a better future.¹⁶⁴ However, it is much more difficult to start over in a completely different country, with language and cultural barriers, than it is to move within the United States.¹⁶⁵ Greeks have fewer resources and the Greek economy has far less influence over the world.¹⁶⁶ Greece's central bank is unable to finance its deficit—the sole reason why help is coming from the outside, primarily with Germany lending money to bail Greece out.¹⁶⁷ On the other hand, the United States remains the largest and most dominant economy in the world and its central bank can support its public spending during an economic crisis.¹⁶⁸ Based on the comparisons mentioned above, it is clear that the United States economy is not in the same dire straits as the Greek economy.¹⁶⁹ Although there are some similarities between the two countries, they are nowhere near as great as exaggerated comparisons contend. Instead, their fiscal positions as well as their tools to subsidize government spending and respond to economic emergencies are different.

B. How A Probable Greek Default May Affect the United States

If Greece left the Eurozone, an economic domino effect would unquestionably take place in Europe.¹⁷⁰ However, one cannot help but wonder but what the financial effect a Greek default would have on the United States economy. Although United States businesses and banks are not entangled in the Greek economy, investors fear that if Greece repudiates its debt and leaves Greek bond holders with nothing, other European countries like Spain and Portugal would suffer a financial strain on their already weakened economies.¹⁷¹ If the EU economy were to crumble

162. *Id.*

163. *Id.*

164. *Id.*

165. *Id.*

166. Miller & Sciacchitano, *supra* note 3.

167. *Id.*

168. *Id.*

169. *See id.*

170. Scott Bombeck, *What Happens Here if Greece Exits the Euro?*, EXAMINER.COM (June 26, 2012), <http://www.examiner.com/article/what-happens-here-if-greece-exits-the-euro?cid=rss> (last visited Oct. 9, 2012).

171. Michael Murray, *What a Greek Debt Default Could Mean for You*, ABCNEWS.COM (June 16, 2011), <http://abcnews.go.com/Business/greek-debt-default-affect-american-economy/story?id=13858070#.UBIBIO1pvq0> (last visited Oct. 9, 2012).

because of a chain of defaults and related bank failures, it could drag the United States economy down with it, since the United States and Europe engage in a lot of trade with one another.¹⁷² The EU is in fact the biggest trading partner for the United States, and the loss of this market could hurt United States companies who rely on sending exports to Europe.¹⁷³ In other words, if an EU recession occurs, there will be less demand in Europe for American exports because they will be more costly for Europeans.¹⁷⁴ Rather, money that is available will be spent on cheaper, local products, greatly hurting United States businesses. However, it is important to note that the United States' exports to Greece are minor.¹⁷⁵ The problem, however, exists the moment that one country leaves the EU, since the market focus would shift to the other deeply troubled economies of Spain, Portugal, Italy, and Ireland.¹⁷⁶ Thus, even though United States exports to Greece are small, the United States could be considerably affected by a Greek default if a shockwave spreads throughout Europe, endangering the Eurozone as a whole.

V. CONCLUSION

The only thing anyone seems to be talking about in the markets these days is the prospect of Greece leaving the EU. However, do not expect a Greek exit from the EU to happen just yet. Although the media frequently discusses the possibility, Eurozone members have fought way too hard to manage the short-term symptoms of the crisis to just let Greece go. They have already bought some time by executing an enormously expensive rescue package and will continue to fight until the very end. Of course, the austerity measures implemented by the EU and the IMF have been tough for a fragile country like Greece. The bailout terms have significantly impacted all aspects of Greek life including the psychology of the people, employment, income, pensions, and more. Still, Greece has a duty to itself and to the rest of Europe to emerge from its current debt crisis. Difficult as the adjustment process may be, Greece will eventually gain from the present restructuring imposed by *troika*. The institutional and economic reforms will contribute to the creation of a balanced budget and the removal

172. *Id.*

173. Bombeck, *supra* note 170.

174. *Id.*

175. Stella Dawson, *What Would Greek Exit Mean for the U.S. Economy?*, REUTERS.COM (May 24, 2012, 7:04PM), <http://www.reuters.com/article/2012/05/24/us-usa-economy-europe-idUSBRE84N1PZ20120524> (last visited Oct. 9, 2012).

176. Blazey & Wetton, *supra* note 2, at 147.

of bureaucratic procedures and corruption—all of which make Greece uncompetitive.

Greeks should be willing to accept the painful bailout conditions if it means they can stay with the Euro.¹⁷⁷ In fact, for the Greeks, sticking with the common currency may be the policy goal of greatest significance.¹⁷⁸ In late May, 2012, a poll found that eighty-one percent of Greeks believed that Greece “should stick with the [Euro] ‘at all costs.’”¹⁷⁹ Additionally, the European Central Bank’s Vice President, Vitor Constancio, recently told reporters that he does [not] anticipate that Greece will depart from the EU and has faith that Athens will work cooperatively with Europe to come out of its crisis.¹⁸⁰ If all this is not enough assurance that Greece is capable of sticking with the Euro, we can look to the country’s lasting history for more answers.

Whether it involved keeping their culture alive under Ottoman rule or defending their homeland from Persian invasion, the Greeks had a fighting spirit and refused to give up. Drawing from its resilient past, the truth suddenly becomes clear; there is still hope for Greece to be saved.

177. Louis Klarevas, *Greeks Don’t Want a Exit*, FOREIGN POLICY (June 14, 2012), http://www.foreignpolicy.com/articles/2012/06/14/greeks_don_t_want_a_grexit (last visited Oct. 9, 2012).

178. *Id.*

179. *Id.*

180. *ECB’s Constancio Doesn’t Expect Greece to Exit the Euro*, NBCNEWS.COM (May 22, 2012, 10:47 AM), http://www.msnbc.msn.com/id/47518489/ns/world_news-europe/t/ecbs-constancio-doesnt-expect-greece-exit-euro/#.UCLLUO1pvq (last visited Oct. 9, 2012).